



Audit Committee Update

Year ended 31 March 201

10 March 2016

Iain Murray

Engagement Lead

T +44 (0)20 7728 3328

E Iain.G.Murray@uk.gt.com

Jackson Murray

Manager

T +44 (0)117 305 7859

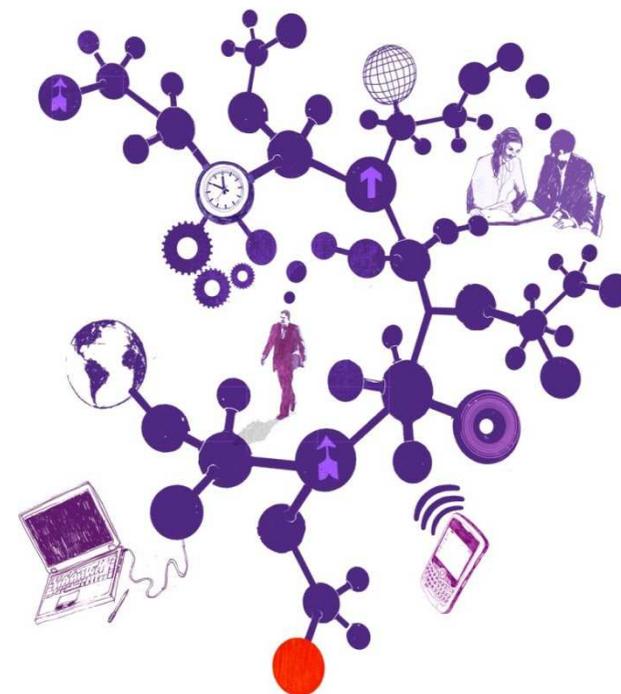
E Jackson.Murray@uk.gt.com

Grace Hawkins

In-Charge Auditor

T +44 (0)29 2034 7542

E Grace.E.Hawkins@uk.gt.com



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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Making devolution work: A practical guide for local leaders
- All aboard? our local government governance review 2015
- Knowing the ropes: Audit Committee effectiveness review
- Examining the Evidence: Audit Committee effectiveness in the Police sector

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

Iain Murray	Title Engagement Lead	T +44(0)20 7728 3328	M 07880 456190	iain.g.murray@uk.gt.com
Jackson Murray	Title Manager	T +44(0)117 305 7859	M 07880 028920	jackson.murray@uk.gt.com

Progress at 10 March 2016

Work	Planned date	Complete?	Comments
<p>2015-16 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Police and Crime Commissioner and Chief Constable setting out our proposed approach in order to give an opinion on the Police and Crime Commissioner's and the Chief Constable's 2015-16 financial statements.</p>	March 2016	Yes	The Audit Plan is included as a separate item on this agenda.
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Police and Crime Commissioner's and the Chief Constable's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing 	March – April 2016	Not yet due	Our interim audit is due to start at the end of March 2016, and arrangements have been made with relevant officers to facilitate this. We will update the Audit Committee on the results of this work at the next meeting.
<p>2015-16 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2015-16 financial statements • proposed opinion on the Police and Crime Commissioner's and the Chief Constable's accounts • proposed Value for Money conclusions 	June – August 2016	Not yet due	We will complete the accounts audit in line with the statutory deadline. We will support the efficient production of the accounts with our series of accounts workshops, in conjunction with CIPFA, and we will specify our working paper requirements in advance of the audit.

Progress at 10 March 2016

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The National Audit Office has set out a revised approach to the value for money conclusion for 2015/16. The three sub-criteria for assessment are:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties 	<p>February – September 2016</p>	<p>Not yet due</p>	<p>We expect to undertake the majority of our work by the end of the financial year, but will be unable to finalise our work until shortly before issuing our value for money conclusion.</p>

CIPFA reports and publications

Local Government Issues

Audit Panels

In December 2015 the Chartered Institute of Public Finance and Accountancy (CIPFA) published its guidance on the establishment of auditor panels.

Under the Local Audit and Accountability Act 2014 'relevant authorities' are able to appoint their own local auditors via an auditor panel. The Secretary of State for Communities and Local Government has decided to implement a phased introduction of the new local audit framework, with all health bodies and smaller local government bodies moving to the new framework as planned on 1st April 2017 and larger local government bodies a year later, on 1st April 2018. In practice, this means that smaller local authorities must have appointed their local auditors by 31st December 2016 and larger principal authorities by 31st December 2017.

The guidance sets out the options available to local authorities in England for establishing an auditor panel; what form such a panel can take; the operation and functions of the panel; and the main task of the panel – that is, advising the authority in connection with the appointment of the local auditor.

Institute for Fiscal Studies report on Police Precepts

Policing Issues

Institute for Fiscal Studies

The Institute for Fiscal Studies (IFS) has identified a growing reliance on locally raised funding as central government grants have been cut back. Whilst in 2000/01 precept revenues financed a sixth of police spending, this had risen to nearly a third by 2014/15 with precept revenues nearly doubling in this time.

The study also notes that whilst a uniform approach has been applied to the cuts in government funding, the impact has been felt disproportionately between forces as some are more reliant on grant funding than others. In general, the IFS commented that those forces that have experienced the biggest cuts to spending are those that saw the smallest increases over the 2000s, as the forces most reliant on grant funding in 2010/11 were those that increased their precept revenues least over the 2000s.

The IFS concluded that understanding the motivations for the differences in approach applied by forces to raising in the 2000s is particularly crucial for the Home Office at the moment given it is seeking to reform how central government grant funding is allocated between forces in future.

The full report can be found at <http://www.ifs.org.uk/uploads/publications/bns/BN179.pdf>

Independent review of the use of targets in policing

Policing Issues

Targets in policing

A review into the use of targets in policing commissioned by the Home Secretary has found that the police need to go further in order to tackle a culture of narrow target-chasing and box-ticking which has got in the way of officers doing their jobs. It found that while forces have generally moved away from the use of hard numeric targets, there are still some individuals in policing who believe targets for call handling or response times exist, even though Home Office performance targets were abolished in 2010.

The review, led by Chief Superintendent Irene Curtis, President of the Police Superintendents' Association of England and Wales, gathered feedback from all 43 forces and included a focus group with Police and Crime Commissioners, a review of police and crime plans and an online survey which received more than 6,000 responses from police officers and staff. Two of the key recommendations are as follows;

- Chief constables should improve their performance measurement, monitoring and reporting processes; and ensure managers are trained to manage performance effectively, holding their officers to account while empowering them to use their professional judgement.
- Police and Crime Commissioners (PCCs) should develop a more sophisticated dialogue with the public on what they consider “success” to look like; and to consider the potential negative impact of setting numerical targets in their police and crime plans.

The full findings and recommendations from the report can be found on the following link <https://www.gov.uk/government/publications/the-use-of-targets-in-policing>

HMIC Report on Regional Organised Crime Units (ROCUs)

Policing Issues

HMIC report on ROCUs

HMIC have published their first full inspection on the ten ROCUs that were set up across England and Wales to provide thirteen specialist policing capabilities, including undercover policing, and cyber-crime investigation, to help police forces tackle serious and organised crime.

HMIC's inspection found that ROCUs have evolved in a piecemeal way, and continue to develop inconsistently. The report found that they range from highly ambitious and effective cross-force collaborative units to smaller and less effective units. This inconsistency can compromise effectiveness or duplicate capabilities unnecessarily. It was notable however that the staff and detectives in ROCUs are capable and motivated and generally conduct high quality investigations.

There were eleven recommendations for ROCUs to consider in HMIC's report. These included that;

- By 1 April 2016 all ROCUs should ensure that all thirteen capabilities are provided
- By 31 March 2016 the Home Office is required to work with the ROCU executive Board and create a three to five year funding settlement in-line with their assessment of the viability and benefits of ROCUs.

A copy of the report can be obtained from the following link <http://www.justiceinspectorates.gov.uk/hmic/news/news-feed/regional-organised-crime-units-should-build-on-their-strongfoundations/>

Accounts - public rights of inspection and challenge

Local Government issues: National Audit Office

Council accounts: a guide to your rights

The NAO has published an updated version of Council accounts: a guide to your rights on its website. The guide has been updated to reflect the new requirements of the Local Audit and Accountability Act 2014, and applies to 2015-16 accounts. The document provides information on how people can ask questions and raise objections about the accounts of their local authority.

<https://www.nao.org.uk/code-audit-practice/council-accounts-a-guide-to-your-rights/>

Arrangements for the exercise of public rights:

The Accounts and Audit Regulations 2015 set out new arrangements for the exercise of public rights from 2015/16 onwards. A key implication of the Act is that the final approval of the statement of the accounts by an authority prior to publication cannot take place *until after the conclusion of the period for the exercise of public rights*. As the thirty working day period for the exercise of public rights must include the first ten working days of July, authorities will not be able to approve their audited accounts or publish before 15th July 2016.

Results of auditors' work 2014/15

Accounting and Audit Issues

Following the closure of the Audit Commission on 31st March 2015, Public Sector Audit Appointments (PSAA) became responsible for appointing auditors to local Government bodies and for overseeing the delivery of consistent, high-quality and effective external audit services. The Audit Commission previously published Auditing the Accounts reports for Local Government bodies covering the 2012/13 and 2013/14 financial years. The reports summarised the results of the work of auditors appointed by the Commission at local bodies. This is the first such report published by PSAA, and it summarises the results of auditors' work at 509 principal bodies and 9,755 small bodies. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors utilised their statutory reporting powers.

The timeliness and quality of financial reporting for 2014/15 remained broadly consistent with the previous year for both principal and small bodies, according to Public Sector Audit Appointments Limited's *Report on the results of auditors' work 2014/15: Local government bodies*.

- for principal bodies, auditors at 345 of 356 councils (97 per cent) were able to issue the opinion on the accounts by the statutory accounts publication date of 30th September 2015.
- 97 per cent of police bodies and fire and rescue authorities also received the audit opinion by 30th September 2015.
- for the second year in a row there have been no qualified opinions issued to date to principal bodies.
- the number of qualified conclusions on value for money arrangements has remained consistent with the previous year at 4 per cent (17 councils, one police body and one fire and rescue authority).

IFRS 13 'Fair value measurement'

Accounting and Audit issues

The 2015/16 Accounting Code applies IFRS 13 'Fair Value Measurement' for the first time. The standard sets out in a single framework for measuring fair value and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

There is no public sector adaptation to IFRS13 but the Treasury and therefore the Code has adapted IAS 16 Property, Plant and Equipment so that operational assets (providing service potential) are no longer held at fair value but current value. As such, IFRS 13 does not apply to operational assets. This new definition of current value means that the measurement requirements for operational property, plant and equipment providing service potential have not changed from the prior year.

However, surplus assets will need to be measured under the new definition of fair value, reflecting the highest and best use from the market participant perspective.

Other areas affected by the new standard include investment property, available for sale financial assets and those items where fair values are disclosed - for example, long term loans and PFI liabilities. IFRS 13 also introduces extensive disclosure requirements.

Local authorities, including PCCs and Chief Constables, need to:

- identify/ review their classification of surplus assets and investment properties
- discuss IFRS 13 with their property valuers and treasury advisers to ensure that fair values provided are produced in line with the new standard
- update accounting policies and disclosures to reflect the new standard.

Challenge question

- Has the CFO reviewed the surplus assets, if any, to ensure what is included is correctly classified?
- Has the CFO ensured property valuers and treasury advisers are aware of the fair value definitions under IFRS 13?
- Have the accounting policies and disclosures in your accounts been updated to reflect the IFRS 13 requirements?



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